

State Notes

TOPICS OF LEGISLATIVE INTEREST

September/October 2008



Michigan Travel Promotion and Business Marketing Programs

By Elizabeth Pratt, Fiscal Analyst, and Maria Tyszkiewicz, Fiscal Analyst

State advertising efforts to attract tourists and businesses have been augmented in recent years by additions to annual budgets and supplemental funding. Support for advertising has included line-item funding in the annual budget for the Michigan Strategic Fund (MSF), an earmark for tourism promotion, annual allocations for business marketing, and appropriations made to the MSF board with the authority for it to allocate them between tourism and business promotion. The MSF has spent these appropriations for the current advertising campaigns known as "Pure Michigan" for tourism promotion and "The Upper Hand" for business promotion. This article reviews the appropriations for tourism and business promotion, including those from the 21st Century Jobs Trust Fund, which will provide a boost to promotion expenditures through fiscal year (FY) 2008-09.

Tourism Promotion

For the last several years, General Fund/General Purpose (GF/GP) appropriations for tourism promotion (appropriated in the line item for the Michigan Promotion Program) have been relatively constant at \$5,717,500. A small increase was added to this line in a supplemental bill for fiscal year FY 2005-06, which authorized an additional \$100,000 GF/GP to provide promotion for the Detroit Zoo. In FY 2007-08 the line item again was increased to \$11,417,500. The bill required, however, that the \$5.7 million increase be split between tourism promotion and business marketing. This \$5.7 million increase was funded with a one-time allocation from the Investment Fund - Returns to Fund, the permanent fund established by 21st Century Jobs Trust Fund legislation (Public Act 225 of 2005) as the depository for any interest or loan repayments from awards under this program as well as interest or loan repayments from prior Life Science and Technology Tri-Corridor program awards. Amounts shown in [Table 1](#), under Investment Fund - Returns to Fund, reflect the allocation by the MSF board of this \$5.7 million, of which \$4,282,500 or 75.1% was allocated for tourism promotion. [Table 1](#) summarizes these recent appropriations for tourism promotion.

Table 1
Estimated Tourism Promotion Appropriations
By Fund Source

	GF/GP	21 st Century Jobs Trust Fund 2005 PA 225	21 st Century Jobs Trust Fund 2008 PA 98	Investment Fund – Returns to Fund	Total
FY 2004-05	\$5,717,500				\$5,717,500
FY 2005-06	\$5,817,500 ^{a)}	\$7,500,000			\$13,317,500
FY 2006-07	\$5,717,500	\$7,500,000			\$13,217,500
FY 2007-08	\$5,717,500		\$10,000,000 ^{b)}	\$4,282,500 ^{c)}	\$20,000,000
FY 2008-09	\$5,717,500		\$27,500,000 ^{b)}		\$33,217,500
FY 2009-10 Est.	\$5,717,500 ^{d)}				\$5,717,500

^{a)} Included \$100,000 provided in Public Act (PA) 345 of 2006, Article 19, for promotion for the Detroit Zoo.
^{b)} Reflects the April 2008 allocation by the Michigan Strategic Fund board between business marketing and tourism promotion of the additional funds provided in PA 98 of 2008.
^{c)} Reflects the Michigan Strategic Fund board allocation of the \$5.7 million appropriated in PA 127 of 2007 from Investment Fund - Returns to Fund between tourism promotion and business marketing.
^{d)} Assumes GF/GP funding continues at the current level.

Source: Michigan Strategic Fund board packets, relevant statutes, and Senate Fiscal Agency.



The 21st Century Jobs Trust Fund, created in 2005 to finance a variety of economic development programs, has become the major source of funding for tourism promotion. The 21st Century Jobs Trust Fund money for tourism promotion was appropriated in two separate measures. The first, Public Act 225 of 2005, provided a one-time appropriation of \$15.0 million for tourism promotion to be used over a two-year period in FY 2005-06 and FY 2006-07. These funds were instrumental in crafting the new campaign titled "Pure Michigan", which replaced the previous "Great Lakes, Great Times" campaign that had been used since the 1990s.

The second appropriation for tourism from the 21st Century Jobs Trust Fund, a recent amendment to the Michigan Strategic Fund Act enacted in May 2008, Public Act 98 of 2008, deposited \$60.0 million from the General Fund to the 21st Century Jobs Trust Fund. Of these funds, \$50.0 million was appropriated to the MSF for tourism and business promotion in FY 2007-08 and FY 2008-09. These funds were made available by the refinancing and restructuring of some of the original Tobacco Settlement Finance Authority bonds issued for the 21st Century Jobs Trust Fund, which allowed the State to increase the amount it was borrowing without increasing the annual debt service expense. The additional funds realized from the bond refinancing were deposited into the General Fund and, while not earmarked for any specific purpose, they allowed the State to make additional expenditures for the tourism promotion program. The MSF board was authorized to allocate the funds between tourism and business promotion with the limitation that not more than one quarter of the total amount could be used to promote business development. At its meeting on April 23, 2008, the MSF board extended its contracts with vendors to spend the additional \$50.0 million in FY 2007-08 and FY 2008-09. The approved resolution provided \$37.5 million for tourism promotion.

These funds have allowed the State to expand advertising purchases to more markets around the country. In FY 2004-05, Michigan's tourism advertising was concentrated in three markets: Chicago, Cleveland, and Indianapolis – Lafayette. The first increases, provided in FY 2005-06 and FY 2006-07, allowed the State to purchase ads in additional markets, specifically Milwaukee, Cincinnati, and Ontario, Canada. The funding that was added for FY 2007-08 and FY 2008-09 further broadened the State's advertising campaign to Columbus, Dayton, and St. Louis, and in 2009 will fund the State's first winter tourism and national cable television tourism campaigns.

Business Development and Marketing

Under the 21st Century Jobs Trust Fund legislation, the business development and marketing campaign was given priority by the establishment of a "set aside" from the annual appropriation. The statute permits the MSF board to use up to 5.0% of the annual appropriation to the 21st Century Fund for business promotion. To date, the MSF board has set the allocation for business development and marketing at 5.0% of the appropriation. Initially this generated \$19.7 million for business marketing to be used over two years, FY 2005-06 and FY 2006-07. This appropriation funded the creation of the "Upper Hand" business promotion campaign which is seen nationwide. In years such as FY 2007-08, in which \$75.0 million was appropriated to the 21st Century Jobs Trust Fund, pursuant to the schedule in the Michigan Trust Fund Act, the 5.0% allocation amounted to \$3.75 million per year. For FY 2008-09 the leadership target agreement, however, reduced the tobacco settlement revenue provided to the 21st Century Jobs Trust Fund by \$10.0 million. A \$3.0 million veto in this budget (Public Act 261 of 2008) further reduced funding to \$62.0 million. As a result of the veto, the 5.0% allocation for business promotion was reduced to \$3.1 million for FY 2008-09.



Allocations from Investment Fund – Returns to Fund also have been used for business marketing. In FY 2007-08, \$1,417,500 from the \$5.7 million appropriated from the Investment Fund - Returns to Fund in the annual budget for the Michigan Strategic Fund was allocated for business marketing. An additional allocation for business marketing was made with the enactment of Public Act 98 of 2008. Of the \$50.0 million appropriated by that Act, the MSF board allocated \$12.5 million (the maximum allowable) for business marketing, to be spent over two fiscal years, FY 2007-08 and FY 2008-09. Table 2 reviews the appropriations for business marketing.

Table 2
Estimated Business Development and Marketing Appropriations
By Fund Source

	21st Century Jobs Trust Fund – 5% Business Marketing	21st Century Jobs Trust Fund 2008 PA 98	Investment Fund – Returns to Fund	Total
FY 2005-06 and FY	\$19,700,000			\$19,700,000
FY 2007-08	\$3,750,000	\$5,000,000 ^{c)}	\$1,417,500	\$10,167,500
FY 2008-09	\$3,100,000 ^{a)}	\$7,500,000 ^{c)}		\$10,600,000
FY 2009-10 Est.	\$3,750,000 ^{b)}			\$3,750,000
^{a)} 5% of the \$62.0 million appropriated from the 21 st Century Jobs Trust Fund in PA 261 pf 2008. ^{b)} Assumes 5% of the \$75.0 million allocated for 21 st Century Jobs Trust Fund under MCL 12.257. ^{c)} Allocation reflects Michigan Strategic Fund board action April 23, 2008.				

Source: Michigan Strategic Fund board packets, relevant statutes, and Senate Fiscal Agency

Future Funding

Most of the increases to the tourism promotion program have come from one-time and annual appropriations, while some revenue for the business marketing program is available through a statutory allocation in addition to one-time appropriations. This makes the funding for tourism promotion potentially more vulnerable than business marketing funding to reductions in future years.

While the 21st Century Jobs Trust Fund has been used to augment State GF/GP spending on the tourism promotion program, the continued availability of this money for that purpose depends on Michigan's economy and the condition of the General Fund. Decisions to make deposits into and withdrawals from the 21st Century Jobs Trust Fund are increasingly based on the competing needs for the General Fund revenue. Revenue to the 21st Century Jobs Trust Fund has come from the securitization of a portion of the State's tobacco settlement revenue (the initial \$400.0 million), deposits of annual tobacco settlement revenue payments, and the transfer of funds from the General Fund to the 21st Century Jobs trust Fund. The availability of all of these fund sources has been reduced from the amounts originally enacted. In FY 2006-07, the 21st Century Jobs Trust Fund was reduced by \$50.0 million due to a transfer from that Fund to the General Fund (Public Act 50 of 2007), decreasing the funds available from \$400.0 million to \$350.0 million. Fiscal Year 2007-08 saw increases to the 21st Century Fund with \$75.0 million from tobacco settlement revenue deposited to that Fund pursuant to the original statute and the deposit of \$60.0 million from the General Fund discussed above. A portion of that General Fund deposit is expected to be reversed, however. The target agreement for FY 2008-09 requires a transfer of \$10.0 million from the 21st Century Fund back to the General Fund. The budget agreement for FY 2008-09 also requires a reduction in the deposit of tobacco settlement revenue from \$75.0 million to \$65.0 million, decreasing the allocation for business marketing.



In the absence of additional supplemental appropriations to the tourism program, it is estimated that the budget for promotion will be reduced by 82.0% from FY 2008-09 to FY 2000-10, shrinking the program from \$33.2 million back to the FY 2004-05 level of \$5.7 million. The business marketing program faces a similar reduction of 64.6% or \$6,850,000, from \$10.6 million in FY 2008-09 to approximately \$3,750,000 in FY 2009-10. For this reason, there is likely to be continued discussion of the funding for both tourism and business marketing and whether promotional activities should continue at the level appropriated for FY 2008-09. One proposal to generate future funding is included in Senate Bill 690, which would earmark a portion of the sales tax revenue for tourism promotion. The bill has been referred to the Senate Committee on Appropriations.

Conclusion

As the above tables show, the State has made a large commitment over several years to promoting Michigan, not only as a tourist destination, but also as a place where businesses should relocate or begin operations. This commitment, especially in the case of tourism promotion, has been funded with one-time measures, making the program vulnerable to large reductions. Although the business marketing program has a statutory funding stream that can be allocated at the discretion of the MSF board, it too could be subject to reductions if the overall appropriations for the 21st Century Jobs Trust Fund are reduced or the MSF board shifts its priorities to other 21st Century programs. If the investment is believed to be providing positive results for the State, future policy decisions will be needed to determine specifically at what level the State should invest in these programs, and from what revenue source.

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The U.S. Financial Crisis, Federal Actions to Restore Credit Markets, and the Impact on Michigan's State and Local Governments

By Jay Wortley, Senior Economist

The Federal government is taking some very significant and bold actions to help remedy the serious financial crisis that is gripping the national and world economies. This article provides a summary of the severity of the financial crisis, the steps being taken by the Federal government to restore the credit markets, and the impact of the financial crisis on Michigan's State and local governments.

The Financial Crisis

The financial crisis began over a year ago when the U.S. housing sector began to slow down and housing prices started to edge downward. When the decline in house values collided with the automatic upward adjustments in subprime mortgage payments, many homeowners were in the unenviable position of not being able to afford their mortgage payments and not being able to sell their house because it was worth less than their outstanding mortgage. As a result, home foreclosures began to rise and the balance sheets of banks and other financial institutions that held these subprime mortgages began to deteriorate. By the summer of 2008, it became apparent that the breadth and scope of the problems these subprime mortgage defaults and foreclosures were placing on the financial sector were much worse than anyone had suspected.

Over the past month, the financial crisis escalated into the most serious financial problem the U.S. has faced since the Great Depression in the 1930s. Initially, the Federal government addressed problems facing individual financial institutions as they arose. These ad hoc targeted actions by the Federal government included taking over Fannie Mae and Freddie Mac, crafting special loans for American International Group (AIG), and changing rules so Goldman Sachs and other investment banks could survive by restructuring into commercial banks. At the same time, some financial institutions, including Washington Mutual and Lehman Brothers, fell into bankruptcy. While these moves by the Federal government were intended to help restore more normal operations in the financial sector, the steady stream of bad news about key financial institutions actually caused confidence in the system to plummet. As a result, banks stopped lending to other banks, loans to businesses essentially stopped, the stock market fell by historical amounts, investors pulled their money out of mutual funds, and the demand for the very safe Treasury bills rose dramatically.

Emergency Economic Stimulus Act of 2008

Due to this snowballing of the financial crisis in just the past few weeks, the Federal government decided broader and bolder actions were needed to avoid a complete collapse of the financial markets. As a result, the U.S. Treasury Department proposed a broad plan to help rescue the financial sector. This plan, called the Emergency Economic Stimulus Act of 2008, was modified and approved by Congress and signed into law by the President on October 6, 2008. The main component of this new Act is the Troubled Asset Relief Program (TARP), which gives the Secretary of the Treasury the authority to purchase, insure, hold, and sell a variety of troubled financial securities, including mortgage-backed financial assets. Under TARP, the Federal



government will purchase mortgage-related assets and other troubled securities to help improve the financial well-being of banks and other financial institutions. The U.S. government will hold these assets and sell them at some future time when their value, one hopes, has improved.

In addition, the Treasury Department will inject funds directly into the banking system by purchasing ownership in banks. Through the TARP Capital Purchase Program, the Treasury Department will buy up to \$250.0 billion of preferred shares in qualified financial institutions that register to participate by November 14, 2008. These bank ownership shares will be held temporarily by the Treasury Department and then eventually sold once the financial institution reestablishes a solid financial position. Nine major banks already have registered for this program.

The law limits the total amount of troubled assets and bank shares the Federal government may own at any time to \$700.0 billion. This limit applies to the Federal government's gross purchases of these assets less any receipts acquired by selling them. This overall \$700.0 billion limit has three sequential thresholds:

1. Initially, the U.S. Treasury Department has the authority to purchase financial assets totaling \$250.0 billion.
2. The limit on these purchases may increase to \$350.0 billion, if needed, but the President must notify Congress in writing that it is necessary to increase the limit an additional \$100.0 billion.
3. The limit may be increased by another \$350.0 billion, up to a total of \$700.0 billion, but only if the President submits to Congress a report detailing why the limit needs to be increased; then Congress will have 15 days to disapprove the request. If no Congressional action is taken during this 15-day period, the increase in the limit will automatically go into effect.

This plan will not cost taxpayers \$700.0 billion because the assets that will be purchased by the Federal government will have value and eventually will be sold. The big issue is the same as the one that the banks and other financial institutions are currently grappling with - how much these assets are currently worth and how much they can be sold for in the near future.

The other major components of the Emergency Economic Stimulus Act of 2008 include:

- **Deposit Insurance Increase.** The Federal Deposit Insurance Corporation (FDIC) will temporarily increase the maximum amount per account that is insured by the Federal government. Currently, the FDIC insures accounts up to \$100,000 and this has been increased to \$250,000 through December 31, 2009.
- **Recoupment of Losses.** The President will be required to propose to Congress a plan to eliminate any net loss (gross purchases less revenue from sales) under TARP if such a net loss exists at the end of five years.



- **Executive Officer Compensation.** Any financial institution that sells at least \$300.0 million of troubled assets to the Federal government will not be able to deduct as a business expense for Federal tax purposes compensation paid in excess of \$500,000 to each of its five highest-paid executives or certain "golden parachute" payments to these executives. Restrictions on executive compensation also will apply to banks that participate in the TARP Capital Purchase Program.
- **Interest on Bank Reserves.** Banks are required to maintain a certain level of reserves at all times to ensure that the banks have sufficient funds available to cover withdrawals by depositors. These reserves must be held in cash and may not be invested. This law allows the Federal Reserve to pay interest on the required reserves held by banks and thus help increase the funds available for banks to lend.
- **Assistance to Homeowners.** The U.S. Treasury Department is required to provide guidance to homeowners and prospective homeowners by promoting such programs as the Hope for Homeowners Program, which was created in the National Housing Act. In addition, the Federal Housing Finance Agency, the FDIC, and the Federal Reserve Board are directed to implement appropriate measures to help reduce the number of foreclosures on residential loans and other related securities that are under their control. These measures could include restructuring mortgages by extending the term and thus reducing the monthly payment.

The U.S. Department of Treasury is currently in the process of implementing the provisions of the Emergency Economic Stimulus Act of 2008 and it hopes to start buying bank shares in the next week or two and begin purchasing troubled securities in the latter half of November.

Other Actions Taken by the Federal Government

In addition to enacting the Emergency Economic Stimulus Act of 2008, the Federal government recently has taken and is taking other actions to help bring relief to the financial markets. All of these actions are designed to add liquidity and confidence to the financial markets and make credit readily available once again. These actions include:

- The Federal Reserve lowered the Federal Funds rate from 2.0% to 1.5%. The Federal Funds rate is the rate banks charge on very short-term loans made to other banks.
- The Federal Reserve will begin making short-term loans to businesses to help make up for the recent collapse of the commercial paper market, which is the market that many businesses use to borrow funds when their cash flow is insufficient to cover such costs as payroll and purchases of supplies.
- The Federal Reserve will auction loans to banks totaling \$900.0 billion between now and the end of 2008.



Impact of the Financial Crisis on Michigan Government

The severe national financial crisis is having negative repercussions on overall economic activity, interest rates, availability of credit, and consumer and business confidence. These negative factors not only will have a negative impact on Michigan's economic performance, but also will have some negative repercussions on State and local governments. The major likely negative impacts on government include the following:

Tax Revenue. The most significant ill effect from the national financial crisis on State and local governments likely will be a decrease in tax collections. Credit is a key component of the day-to-day operations of the economy, including borrowing by consumers to purchase motor vehicles and other durable goods, short-term borrowing by businesses to help smooth cash-flow shortfalls or invest in new equipment, and borrowing by State and local governments. As the availability of credit diminishes, consumers, businesses, and governments are forced to curtail spending, and this will slow economic activity and lower State revenue derived from taxes, including the income, sales, and business taxes. In addition, a weaker economic climate will have negative repercussions on property values and therefore on property taxes, which are the main source of income for local governments.

Short-Term Borrowing. State government typically borrows over \$1.0 billion at the beginning of a fiscal year to help improve its cash position and then repays the money at the end of the fiscal year. At this time, it is not known if short-term credit will be available to State government, but even if it is, the cost to borrow the money will be higher than it otherwise would be, given the credit crunch. The Michigan Department of Treasury will have to factor in the availability of credit and its cost against the need to borrow funds to help smooth out the State's cash-flow position.

Capital Outlay Borrowing. The availability and cost of selling long-term bonds for capital improvements for both State and local governments may force the delay of some projects or at a minimum increase the cost to finance them.

Pension Funds and Contribution Rates. As the stock market has tumbled, the value of Michigan's pension funds has declined by several billion dollars. This decline in the value of the pension funds will push up the pension contribution rates that will have to be paid for public school employees participating in the Public School Employees Retirement System and State government workers who are in the defined benefit pension plan.

Revised Economic and Revenue Projections

While the breadth and depth of the financial crisis and its repercussions throughout the economy are still playing out, it is clear that economic activity will be slower than had been projected previously and tax revenue will be less than previously estimated. The Senate Fiscal Agency will continue to closely monitor the financial crisis and its current impact and potential future impact on overall economic activity and revenue collections. The Agency then will use these findings and information to prepare a new economic forecast and new revenue estimates, which are currently scheduled to be released in the middle of December.

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A Review of the Financial Status of the Detroit Public Schools By Gary S. Olson, Director, and Kathryn Summers-Coty, Chief Analyst

This article provides information concerning the financial status of the Detroit Public Schools (DPS). Included are data on the recent financial history of the DPS, a summary of the district's fiscal year (FY) 2008-09 enacted budget, a discussion involving the issues related to the definition of a first class school district and the potential impact of this definition on the DPS, and a discussion of the processes outlined in the Local Government Fiscal Responsibility Act for the appointment of a financial review team and the potential for a financial manager to be named to oversee the district's fiscal matters.

Recent Financial History of the DPS

The Detroit Public Schools are currently governed by an 11-member board of education, elected by the voters of the school district. During the period from April 1999 through October 2004, the DPS was governed by a seven-member reform board pursuant to Public Act 451 of 1999. The reform board included six members appointed by the mayor of the City of Detroit and one member appointed by the Governor. Before April 1999, the DPS was governed by a locally elected board of education.

Table 1 provides a history of audited DPS revenue and expenditures for the period FY 1994-95 through FY 2006-07. The data are from the DPS Annual Financial Reports. The data include revenue and expenditures for operational purposes and do not include debt service or capital outlay revenue or expenditures. During this 13-fiscal-year period, actual annual DPS revenue exceeded annual expenditures in four fiscal years. The most recent fiscal year in which this occurred was FY 2001-02. During the other nine fiscal years included in Table 1, annual DPS expenditures exceeded annual revenue. During the most recent audited year, FY 2006-07, DPS expenditures exceeded revenue by \$17.2 million.

Table 1

Detroit Public Schools Financial Data - Operating Revenue and Expenditures ¹⁾ (millions of dollars)			
Fiscal Year	Revenue	Expenditures	Revenue Less Expenditures
1994-95	\$1,198.4	\$1,210.7	\$(12.3)
1995-96	1,298.0	1,326.1	(28.1)
1996-97	1,325.2	1,275.6	49.6
1997-98	1,359.7	1,291.0	68.7
1998-99	1,406.3	1,382.3	24.0
1999-2000	1,431.0	1,439.7	(8.7)
2000-01	1,454.6	1,490.8	(36.2)
2001-02	1,664.7	1,606.4	58.3
2002-03	1,688.9	1,696.0	(7.1)
2003-04	1,665.4	1,777.4	(112.0)
2004-05	1,598.4	1,676.9	(78.5)
2005-06	1,553.9	1,588.2	(34.3)
2006-07	1,556.5	1,573.7	(17.2)

¹⁾ Operating Expenditures are total expenditures less debt service and capital outlay.

Source: Detroit Public Schools Annual Financial Reports



At the close of FY 2003-04, the DPS received approval from the State of Michigan to refinance \$210.0 million of short-term State Aid Anticipation Notes outstanding as long-term debt payable over 15 years. The repayment of this long-term borrowing began during FY 2006-07. As a part of the conditions for State approval of this borrowing, the DPS agreed to maintain a positive general fund balance. The DPS also agreed to make its finances subject to a fiscal review committee designated by the State Treasurer. This committee currently consists of staff from the Michigan Department of Education, the Office of the State Budget, and the Department of Treasury. The committee is responsible for monitoring the finances of the DPS.

A significant decline in the number of pupils in the school district has contributed to the financial stress facing the DPS. This decline has an impact on the level of per-pupil State funding received by the DPS. Table 2 provides a summary of the pupil membership in the DPS for the period FY 1994-95 through FY 2008-09. The FY 2008-09 estimate is the estimate used by the State during the Consensus Revenue Estimating Conference held in May 2008. During this 15-fiscal year-period, the DPS peaked at 173,871 pupils in FY 1997-98. By FY 2007-08, the number had declined to 106,485. This represents a decline of 67,386 pupils or 38.8%. During FY 2008-09, the number of pupils in the DPS is expected to drop to 96,194.

Table 2

Detroit Public Schools – Annual Pupil Membership		
Fiscal Year	Pupil Memberships	Change from Prior Year
1994-95	167,481	549
1995-96	169,996	2,515
1996-97	173,080	3,084
1997-98	173,871	791
1998-99	173,848	(23)
1999-2000	168,213	(5,635)
2000-01	162,693	(5,520)
2001-02	159,694	(2,999)
2002-03	157,003	(2,691)
2003-04	150,415	(6,588)
2004-05	141,148	(9,267)
2005-06	130,719	(10,429)
2006-07	117,601	(13,118)
2007-08	106,485	(11,116)
2008-09 Estimated	96,194	(10,291)

Source: Senate Fiscal Agency data

The pupil decline in the DPS has reduced the level of revenue available to support the operation of the district. Based on the State per-pupil funding received by the DPS during FY 2007-08, the 67,386-pupil decline since FY 1997-98 represents a loss of approximately \$510.0 million of revenue. This loss is equivalent to approximately one-third of the current operating revenue of the DPS.

Like many other local school districts across the State, the DPS is faced with the dilemma of having to adjust operating expenditures to keep a balanced budget in light of declining enrollments and limited increases in the per-pupil funding provided by the State. Because the State funds local school districts on a per-pupil basis, which typically accounts for the majority of a district's operating revenue, one would expect that a school district's operating expenditures



per pupil should track closely with the increase in the per-pupil foundation allowance. If this is not occurring, it is likely that a local school district is facing an imbalance between operating revenue and expenditures.

Table 3 illustrates this situation in the DPS. The table provides a summary of the foundation allowance per pupil received by the DPS from the State and the operating expenditures per pupil in the district. Comparing FY 2006-07 with the peak year in pupils, FY 1997-98, the per-pupil foundation allowance funding increased by 25.1% over this nine-fiscal-year period. During the same period, the operating expenditures per pupil in the district increased by 80.2%. Because the growth in per-pupil operating expenditures has exceeded the growth in the per-pupil funding the DPS received from the State, annual DPS operating expenditures have exceeded operating revenue in recent years.

Table 3		
Detroit Public Schools		
Foundation Allowance and Per-Pupil Expenditures		
Fiscal Year	Foundation Allowance	Expenditures Per Pupil
1994-95	\$5,584	\$7,228.9
1995-96	5,737	7,800.8
1996-97	5,892	7,370.0
1997-98	6,046	7,425.0
1998-99	6,046	7,951.2
1999-2000	6,284	8,558.8
2000-01	6,584	9,163.3
2001-02	6,884	10,059.2
2002-03	7,180	10,802.3
2003-04	7,180	11,816.6
2004-05	7,180	11,880.4
2005-06	7,355	12,149.7
2006-07	7,565	13,381.7
Dollar Change		
FY 2006-07 from FY 1997-98	\$1,519.0	\$5,956.6
Percentage Change		
FY 2006-07 from FY 1997-98	25.1%	80.2%

Source: Senate Fiscal Agency calculations

The future financial health of the DPS will likely hinge on the district's ability to reduce expenditures rapidly enough to keep up with an ongoing decline in pupils. This financial stress will continue unless the DPS develops additional revenue sources or takes actions that will level off the number of pupils in the district. Absent additional revenue or a leveling-off in the pupil count, the DPS will be forced to make significant reductions in expenditures to ensure a balance between annual revenue and expenditures.



Summary of the FY 2008-09 Approved DPS Budget

Under State law, public school districts in Michigan are required to approve an annual budget not later than June 30 of each year. The Detroit Board of Education approved a budget for FY 2008-09 on June 30, 2008. This budget attempts to eliminate a projected FY 2008-09 deficit of approximately \$408.0 million over the next two fiscal years. This deficit projection includes both the imbalance between projected FY 2008-09 operating revenue and expenditures and a negative operating balance carried forward from FY 2007-08.

Table 4 provides a high-level summary of the approved FY 2008-09 budget compared with the current estimates of projected final revenue and expenditures for FY 2007-08. The fiscal year for the DPS begins on July 1 of each year. The numbers contained in Table 4 are the general fund budget for the school district and do not include certain revenue and expenditures related to capital improvements and funding as a result of the sale of capital bonds.

<p style="text-align: center;">Table 4 Detroit Public Schools Summary of Adopted FY 2008-09 General Fund Balance (millions of dollars)</p>				
	FY 2007-08 Projections	FY 2008-09 Enacted Budget	Dollar Difference	Percentage Change
Balance from Prior Fiscal Year	\$7.2	\$(114.7)	\$(121.9)	N/A
Current Year Revenue:				
Local Sources	119.1	100.4	(18.7)	(15.7)%
State Sources	814.6	746.5	(68.1)	(8.4)
Federal Sources	218.9	199.5	(19.4)	(8.9)
Other Financing Sources	77.9	69.1	(8.8)	(11.3)
Total Current Year Revenue	1,230.5	1,115.5	(115.0)	(9.3)
Total Revenue (Including Prior Year Balance)	\$1,237.7	\$1,000.8	\$(236.9)	(19.1)%
Expenditures:				
Classroom Instruction	731.6	650.1	(81.5)	(11.1)
Support Services	175.5	158.5	(17.0)	(9.7)
Administration	133.9	106.4	(27.5)	(20.5)
Operation and Maintenance	165.3	109.2	(56.1)	(33.9)
Transportation	57.8	26.0	(31.8)	(55.0)
Other Expenditure Categories	83.6	54.7	(28.9)	(34.6)
Total Expenditures	\$1,347.7	\$1,104.9	\$(242.8)	(18.0)%
Revenue Less Expenditures	\$(110.0)	\$(104.1)	\$5.9	N/A
Fund Transfers/Other Adjustments	(4.7)	(0.6)	4.1	N/A
Year-End Fund Balance	\$114.7)	\$(104.7)	\$10.0	N/A

Source: Senate Fiscal Agency calculations from Detroit Public Schools 2009 adopted budget.

The approved FY 2008-09 general fund budget, based on the revenue and expenditure assumptions included in the budget, will result in a \$104.7 million deficit at the close of FY 2008-09. This will be a reduction of \$10.0 million from the projected budget deficit at the close of FY



2007-08. The DPS budget document contains a discussion involving the continuation of revenue assumptions and expenditure reductions into the FY 2009-10 budget that will lead to a projected FY 2009-10 year-end balance of \$2.6 million. However, the budget adopted by the DPS pertains only to FY 2008-09. Eliminating a projected \$408.0 million budget deficit over two fiscal years will involve significant reductions in expenditures. Based on the audited FY 2006-07 expenditure level of \$1.57 billion, a \$408.0 million reduction in spending over two fiscal years equates to a 26.0% reduction in expenditures.

On the revenue side of the FY 2008-09 general fund budget ledger, the budget assumes total current-year revenue of \$1.12 billion. This represents a \$115.0 million or 9.3% decline from the estimated level of FY 2007-08 current-year revenue. Factoring in the \$114.7 million deficit carried forward from FY 2007-08 leads to total available FY 2008-09 revenue of \$1.0 billion. This represents a decline of \$236.9 million or 19.1% from the prior fiscal year.

On the expenditure side of the FY 2008-09 general fund budget ledger, the budget assumes total expenditures of \$1.1 billion. This represents a decline of \$242.8 million or 18.0% from the prior fiscal year. This large decline is necessary as the budget reduces expenditures in an effort to bring them in line with declining revenue resulting from significant pupil declines. The budget plan provides for large spending reductions in all aspects of the DPS budget, including instructional and instructional support services, general support services, administration, operation and maintenance, and transportation.

The key factor in analyzing any approved budget is understanding the assumptions behind the numbers contained in the budget. The following information provides a discussion of several of the key assumptions on which the FY 2008-09 DPS budget is based.

Pupil Membership: As mentioned above, the DPS has been losing pupils at a rapid rate in recent years. During FY 2007-08, the DPS pupil membership declined by 11,116 pupils to 106,485. The FY 2008-09 DPS budget assumes a pupil membership of 98,356 or a decline of 8,129 pupils. The consensus pupil membership estimate for the DPS agreed to at the May 2008 Consensus Revenue Estimating Conference projects the FY 2008-09 DPS pupil membership at 96,194. This is a difference of 2,162 pupils or approximately \$16.5 million of State foundation allowance funding.

Foundation Allowance: The DPS budget was approved before the State finalized the FY 2008-09 State School Aid appropriation bill. The DPS budget assumes an FY 2008-09 per-pupil foundation allowance of \$7,627. The actual foundation allowance funded by the State is \$7,660. This difference will provide approximately \$3.2 million of additional State revenue not assumed in the budget.

Classroom Instruction: The DPS budget assumes \$59.2 million of General Fund/General Purpose (GF/GP) savings from the layoff of 818 teachers in the district. This is the projected savings from GF/GP-funded positions and does not include savings from positions funded by grants, adult education, or special education. The layoff of 818 teachers will represent a reduction of approximately 12.0% of the teachers in the district. While this teacher layoff is assumed in the budget, the actual layoff has not yet taken place. Notices of the potential layoff of 300 teachers were sent out on April 1, 2008. The layoff notices for the remaining 518 teachers have not yet been distributed. As of August 13, 2008, it does not appear that any teaching positions



have been eliminated through the layoff process. The actual number of teacher layoffs and the timing of these layoffs are critical assumptions in the budget. Reductions in the number of assumed teacher layoffs or delays in the timing of these layoffs will result in unfunded expenditures in the budget.

Other Employee Reductions: The DPS budget assumes \$87.8 million of GF/GP savings from the layoff of 900 individuals in nonteaching positions in the district. These include support staff, administrative staff, maintenance staff, and transportation staff. The layoff of these employees will represent a reduction of approximately 13.5% of these positions in the district. The DPS is currently attempting to begin the implementation of these layoffs. The school district is studying the required time frames for notifying employees of the layoffs and attempting to assess their impact on the operations of the district. In early October, layoff notices were sent to more than 300 employees, including social workers, psychologists, custodians, and bus attendants. The actual number of nonteacher layoffs and the timing of these layoffs are critical assumptions in the budget. Reductions in the number of assumed layoffs or delays in their timing will result in unfunded expenditures in the budget.

Union Concessions: The DPS budget assumes \$12.3 million of savings from employee concessions. The DPS is currently in discussions with several of the labor unions representing DPS employees. The employee concessions could include wage or benefit concessions jointly agreed to by the DPS and the labor unions. The labor unions have not yet agreed to the employee concessions assumed in the budget. The fact that these \$12.3 million of employee concessions are assumed in the budget could lead to unfunded expenditures if the concessions are not realized.

Other Major Expenditure Reductions: The DPS budget assumes \$40.0 million of savings from a reduction in purchases of supplies, services, and equipment, and in travel costs. This assumption is a major reduction for the district and the impact of the reduction on the district's operation is unclear. The budget details include a 48.2% reduction in the level of teaching supplies and textbooks. If this assumed \$40.0 million of savings is not realized, there will be unfunded expenditures in the budget.

The FY 2008-09 DPS budget includes very aggressive assumptions concerning expenditure reductions in the district. These reductions are necessary if the DPS is going to achieve the stated goal in the FY 2008-09 budget of balancing projected revenue and expenditures at the close of FY 2009-10. The major concern regarding the DPS budget should be the implementation of these assumed expenditure reductions. Since the 2008-09 school year began on July 1, 2008, further delay in implementing these expenditure reductions could lead to a much larger FY 2008-09 year-end deficit than the \$104.7 million assumed in the budget.

Definition of a First Class School District

The fact that the State is projecting that the pupil membership in the DPS will be dropping to 96,194 during the FY 2008-09 school year leads to another potential State policy issue involving the district. Before the enactment of Senate Bill 1107, the FY 2008-09 State School Aid Act appropriation bill, the only definition of a first class school district was found in the Revised School Code (RSC). The RSC is a separate statute governing many aspects of school districts,



intermediate school districts, charter schools, elections, school bonding, and other school issues. The definition of a first class school district is found in the RSC at MCL 380.402, which states:

Sec. 402. A school district that has a pupil membership of at least 100,000 enrolled on the most recent pupil membership count day is a first class school district governed by this part.

The DPS is the only local school district in the State that meets the RSC definition of a first class school district. Enacted Senate Bill 1107 includes, for the first time, a definition of a first class school district in the State School Aid Act: a district of at least 60,000 pupils. This new definition will allow the DPS to continue to use certain provisions of the Act even if the number of pupils in the district drops under 100,000. These provisions include:

- Sec. 18: Allows a district of the first class to use the auditor of the city as its financial auditor.
- Sec. 25b: Provides a threshold for districts that are not first class districts that must be attained before they are allowed to count pupils who enroll after the count day, and receive prorated funding.
- Sec. 25c: Provides a different threshold for a district of the first class that must be attained before it is allowed to count pupils who enroll after the count day, and receive prorated funding.
- Sec. 31a: Allows a district of the first class to use up to 15% of at-risk funds for school security.
- Sec. 64: Allows a district of the first class (in addition to intermediate school districts) to compete for health/science middle college grants.
- Sec. 166e: Requires competitive bidding of contracts for a district of the first class.

This different definition of a first class school district contained in Senate Bill 1107 should not have an impact on the level of Federal funds received by the DPS. According to the Michigan Department of Education, Federal funding for the DPS does not depend upon any State definition of its being or not being a school district of the first class. Federal funding is governed by Federal rules; it is possible that the DPS, simply by virtue of losing students, will see decreased Federal funding, but that has nothing to do with any State definition of first class status.

The definition of a first class school district contained in Senate Bill 1107 does not apply to Section 6(6)l of the State School Aid Act. This section allows a district of the first class, as still defined in the RSC as one with at least 100,000 pupils, to veto or prohibit another school from opening up a school district within the first class district's boundaries. Therefore, if or when the DPS falls below 100,000 pupils, it will lose its ability to veto or prohibit other districts from opening up a school within the boundaries of the DPS.

The enactment of a definition of a first class school district in the Act results in different definitions of a first class school district in the State School Aid Act and the Revised School Code. All of the sections of the RSC that mention a first class district remain bound by the definition in Section 402 of the Code. For example, the section of the RSC that prohibits community colleges from authorizing a charter school to open within the boundaries of a first class district still applies only to a first class district with over 100,000 pupils. Therefore, absent a statutory change in the definition of a first class school district in the RSC, community colleges will be free to open



charter schools within the boundaries of the DPS when the enrollment of the DPS drops under 100,000 pupils.

Local Government Fiscal Responsibility Act

On September 17, 2008, the State Superintendent of Public Instruction requested that the Governor appoint a financial review team to review the financial condition of the DPS. On October 8, 2008, it was reported that the review team was named, with a deadline of November 5, 2008, to report its findings.

The Local Government Fiscal Responsibility Act prescribes the process that led to the request for the financial review team, and how the findings of that team can lead to the appointment of an emergency financial manager for a school district. This Act provides for the review, management, planning, and control of the financial operation of local units of government, including school districts. Article 3 of the Act contains the provisions governing school districts.

The Act specifies that the State Superintendent of Public Instruction is responsible for monitoring and periodically reviewing the financial condition of school districts to ensure their compliance with State laws regulating budgetary and accounting practices and their financial soundness. The Act goes on to state that the Superintendent may determine that a school district has a serious financial problem if one or more of the following conditions exist:

- The school district ended the most recently completed school fiscal year with a deficit and the Superintendent has not approved a deficit elimination plan within three months after the district's deadline for submission of its annual financial statement.
- The school board of the district adopts a resolution declaring that the school district is in a financial emergency.
- The Superintendent receives a petition containing specific allegations of school district financial distress, signed by at least 10.0% of the total vote cast for Governor within the district.
- The Superintendent receives a written request, from a creditor of the school district with an undisputed claim, to find the district has a serious financial problem.
- The Superintendent receives written notification from a trustee or bondholder, or the State Treasurer, of a violation of the district's bond or note covenants.
- The Superintendent receives a resolution from either the Senate or the House of Representatives requesting a review of the financial condition of the district. (The Senate did request this review of the Detroit Public Schools, via adoption of Senate Resolution 209 on July 8, 2008.)
- The district is in violation of the conditions of an order issued pursuant to, or as a requirement of, the Revised Municipal Finance Act.
- The district is in violation of the requirements of Sections 17 to 20 of the Uniform Budgeting and Accounting Act. (This Act prohibits a district from operating in deficit, and the DPS board of education adopted a budget for the 2008-09 fiscal year that is a deficit budget.)
- The district fails to provide an annual financial report or audit that conforms with the minimum procedures and standards of the State Board of Education and is required under the Revised School Code.



- A court has ordered an additional tax levy without the prior approval of the school board of the district.

Under the review of the financial conditions of the DPS as requested under Senate Resolution 209, the Superintendent identified three critical areas of financial weakness: 1) In the FY 2006-07 Financial and Single Audits, the single audit included 120 findings; 2) the Deficit Elimination Plan submitted on August 14, 2008, is not approvable in its current form; and, 3) the district was put in high-risk status for all Federal education programs on August 26, 2008. Also, the Superintendent's report on the financial review found that the district continues to operate under significant cash-flow issues, and that monthly financial reports, required of the district as part of its borrowing in 2004 of \$216.0 million, have failed consistently to reflect the actual financial condition of the district. Therefore, the Superintendent determined that the district has a serious financial problem and notified the Governor and State Board of Education of that determination, and, pursuant to the Local Government Fiscal Responsibility Act, requested the appointment of a review team.

The Act requires that the Governor appoint a review team within 30 days after being notified of the serious financial problem. The review team must consist of the State Superintendent, the State Treasurer, the Director of the Department of Management and Budget, a nominee of the Senate Majority Leader, and a nominee of the Speaker of the House of Representatives. The Senate Majority Leader nominated Timotheus Weeks (assistant superintendent for business services for Bloomfield Hills Schools) and the Speaker of the House nominated Oscar King III (the pastor of Detroit Northwest Unity Baptist Church and president of the Council of Baptist Pastors of Detroit and Vicinity). The review team has full power to:

- Examine the books and records of the district;
- Use the services of other State agencies and employees, and employ professionals necessary to assist in its duties; and
- Sign a consent agreement with the DPS superintendent that may provide for a long-range financial recovery plan, use State financial management and technical assistance, and provide for periodic fiscal status reports to the State Superintendent. This agreement must be approved by a majority vote of the DPS school board for it to be effective.

The review team must report its findings to the Governor and the State Board within 30 days after its appointment, though the Governor may grant one 60-day extension. In this case, the report is due November 5, 2008, unless an extension is granted before that date. Copies of the report also must be sent to the State Superintendent, DPS' board, the Senate Majority Leader, and the Speaker of the House of Representatives. The review team must conclude one of the following: 1) The district does not have a serious financial problem; 2) the district does have a serious financial problem, but a consent agreement containing a plan to resolve the problem has been adopted; or, 3) the school district has a financial emergency because a consent agreement containing a plan to resolve the problem has not been adopted.

Within 30 days after the State Board receives the report from the review team, the State Superintendent must make one of the same three determinations as listed above (no financial problem, financial problem but a plan in place, or financial emergency because no plan in place). If the Superintendent determines that a financial emergency exists, written notification of that determination will be sent to DPS' board, and the board will have 10 days to request a



hearing to contest the determination. If the determination stands after any hearing, the State Superintendent will have 30 days to submit to the State Board the names of nominees to be considered for appointment as an emergency financial manager for the school district. The State Board then must forward not more than three nominees to the Governor, and the Governor must choose one of those nominees, with advice and consent from the Senate. The term of office for the emergency financial manager must be fixed by the Governor, but may not exceed one year, and may be renewed on an annual basis for not more than one year.

Upon appointment by the Governor, an emergency financial manager immediately assumes control over all fiscal matters of, and makes all fiscal decisions for, the school district. The manager may examine the books and records, review payrolls or other claims against the district, negotiate, renegotiate, approve, and enter into contracts on behalf of the district, receive and disburse funds, adopt a final budget for the next school fiscal year, act as an agent of the district in collective bargaining, and, to the extent possible under State labor law, renegotiate existing and negotiate new labor agreements. The manager may recommend to the Legislature steps that need to be taken to improve the district's financial condition, require compliance with the manager's orders via court order if necessary, and require the attendance of witnesses and the production of documents relevant to an analysis of the district's financial health.

The manager also may recommend that the district be reorganized with one or more contiguous school districts, create new positions, seek approval from the State Board for a reduced class schedule, employ auditors, reduce expenditures in the budget, borrow money on behalf of the district, approve or disapprove the issuance of school district obligations, order school millage elections consistent with the Revised School Code, sell or otherwise use the assets of the district to meet past or current obligations, and, after giving written notice to the State Superintendent, authorize the district to proceed under Chapter 9 of Title 11 (Bankruptcy) of the United States Code, allowing the district to become a debtor. In consultation with the district's board, the emergency financial manager must develop a written financial plan, which must provide for conducting the operations of the district within the resources available, and paying in full the scheduled debt service requirements on all bonds and notes and other uncontested legal obligations.

If an emergency financial manager is appointed, that person serves until the declaration of financial emergency is revoked by the State Superintendent. The Superintendent may determine and certify that the conditions for the revocation have been met after receiving a recommendation from the emergency financial manager, though the manager may condition the recommendation upon the school board's adoption of a resolution that will ensure the adoption of a balanced budget, the elimination of any remaining accumulated deficit, and the prevention of additional negative fund balances.

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How the Children's Rights Settlement Will Affect the State of Michigan **By David Fosdick, Fiscal Analyst**

Introduction

In August 2006, the national nonprofit organization Children's Rights filed a class action lawsuit against the State of Michigan in the U.S. District Court for the Eastern District of Michigan. The lawsuit alleged that systemic problems in Michigan's child welfare system had harmed children placed in the State's custody. In October 2008, in an effort to avert a civil trial, the two parties finalized a settlement agreement, which the Court approved. The settlement outlines how the State must modify the structure of foster care in Michigan. This article provides a summary of the Children's Rights lawsuit and settlement and begins to explore some of the factors that will influence the implementation of the settlement agreement in years to come.

Summary of the Lawsuit

The class action lawsuit *Dwayne B v. Granholm* filed by Children's Rights alleged that foster children in Michigan were mistreated while in foster placements, did not have access to sufficient physical and mental health services, remained in State custody for an excessive amount of time, and were forced to move frequently among multiple placements. The lawsuit attributed these outcomes to a shortage of available foster placements, high caseload-to-worker ratios, improper monitoring of child safety in placements, ineffective processes for planning for the movement of children out of foster care, and low payment rates for foster care services.

During the lawsuit process, Children's Rights contracted with several outside organizations to complete a systemic review of children's services in Michigan. A management review identified deficiencies in staffing levels and management structure for children's services administered by the Department of Human Services (DHS). An analysis of a sample of cases administered through the DHS suggested that a significant proportion of cases administered through the State did not meet Federal and State guidelines designed to ensure placement stability and safety.

In October 2008, before the scheduled trial started, the State of Michigan reached a settlement with Children's Rights. The settlement agreement identifies a number of changes that Michigan must make in the next few years in the provision of foster care services. The outside reviews conducted during the lawsuit process inspired a number of the requirements included in the settlement. The court appointed a monitor to ensure that Michigan complies with this agreement.

Summary of the Settlement Agreement

The settlement agreement reached between Children's Rights and the State of Michigan covers a wide range of issues in the child welfare system in the State. The agreement includes a number of requirements and targets that the State will be required to reach over the next few years. The summary provided below is not a comprehensive list of all the requirements the State must meet; it instead covers the major terms of the settlement that will require significant structural change in the provision of child welfare services or are likely to have a significant fiscal impact on the State.



Changes in Organizational Structure

The agreement mandates a reorganization of the structure of the DHS. The Department is required to establish a separate Children's Services Administration. The Children's Services Administration will consolidate all policy development, child welfare improvement, field operations in the largest counties, data collection, and training functions under one director. The settlement provides guidance on the job descriptions for the senior staff at the new Children's Services Administration.

Additionally, the Department is required to establish distinct offices to provide children's services in Genesee, Kent, Macomb, Oakland, and Wayne Counties. Currently, children's services are provided through the same offices that provide assistance programs. The required changes in Department structure must be complete by March 2009.

Investigation of Allegations of Abuse or Neglect

The Department is required to replace phone lines used for the reporting of suspected abuse or neglect of children that are currently operated at the county level, with a State-centralized abuse reporting hotline by October 2010. The settlement further requires the State to establish separate units for the investigation of allegations of abuse and neglect of children in foster care custody of the Department. These units must be available statewide by April 2010.

Staff Training

The agreement requires all newly hired caseworkers working in children's services to possess, at minimum, a bachelor's degree in social work. Newly hired caseworkers will be required to complete eight weeks of training and pass a written examination before beginning casework. By 2012, all caseworkers will be required to complete at least 40 hours of training annually.

The agreement further requires all workers promoted to supervisory positions to possess a master's degree in social work. All supervisors will be required to complete a 40-hour training program and pass a written examination before assuming their new tasks. With a few exceptions, all current employees promoted to supervisory positions within the previous 18 months must earn a master's in social work within four years.

Caseload Requirements

The agreement includes a number of targets in caseload-to-worker ratios that must be met over the next few years. These target ratios must be reached for caseworkers employed through the DHS and those employed by private agencies. Michigan is required to meet interim reductions in caseload-to-worker ratios between 2008 and 2011. Provided below is a brief summary of the final ratios that must be met by worker type by 2011.

- 95% of supervisors are required to oversee five or fewer caseworkers.
- 95% of foster care caseworkers are required to have 15 or fewer cases.
- 95% of adoption caseworkers are required to have 15 or fewer cases.
- 95% of child protection service caseworkers are required to have 17 or fewer cases.
- 95% of licensing workers are required to have 30 or fewer cases.



Reaching these targets will require aggressive hiring of additional staff. Currently, caseload ratios have been reported (with variance between type of worker and location) between 25:1 and 40:1.

Permanency Planning

The agreement includes a number of requirements related to how each case is administered by the Department. Specifically, new standards are set forth for how the DHS makes decisions about child placements and the goals that are established for each child.

The Department is required to use team decision making when making major case decisions. This process uses input from family, foster parents, the DHS, and other relevant parties when major decisions are made.

The settlement requires additional policy changes designed to expedite the movement of children from foster placements to more permanent arrangements. These changes discourage the establishment of permanency goals more than one year in the future, require concurrent planning for children (establishing a groundwork for another placement if reunification becomes unworkable), and set new standards to accelerate the transition from reunification planning to adoption.

Foster Care "Backlog" Actions

The agreement outlines a number of steps the Department must take to deal with "backlogged" children: those who have been available for adoption or in foster care for more than one year. The DHS is required to hire a planning coordinator to develop plans to place these children. During fiscal year (FY) 2007-08 and FY 2008-09, the Department is required to hire 200.0 full-time equated employees (FTEs) for permanency planning activities. The agreement requires that 50% of the backlogged children be placed in permanent arrangements by the end of FY 2008-09, 85% be placed by the end of FY 2009-10, and 100% be placed by the end of FY 2010-11.

Services to Placed Children

The settlement agreement requires the Department to ensure that all placed children have access to all needed medical, dental, and mental health care. The Department must provide an additional \$3.0 million to fund mental health services for foster children. Additionally, the DHS is required to provide additional supports for children making the transition out of foster care into adulthood and to ensure that necessary educational services are provided as well.

Foster Care and Adoption Homes

The settlement requires the Department to make changes in the number and types of placements available to foster care children. Language in the agreement requires the DHS to ensure that sufficient placements are available, take over recruitment of sufficient foster home beds, and by 2010, ensure that there are 200 treatment foster home beds (for children with higher levels of need). Additional language requires the Department take steps to ensure that payments to parents and contracted private agencies are adequate.



Further, the settlement requires the Department to ensure that all placements (with relatives and nonrelatives) are to be in licensed homes.

Needs Assessment

Under the settlement, the Department is required to provide to the court-appointed monitor an assessment of additional needs for services and placements for foster children by 2009. The DHS must complete a second analysis of the same issues in 2011. The Department is required to allocate \$4.0 million to address the needs identified in the assessment. These funds likely will be used for family preservation, mental health, and reunification services.

Quality Assurance

The Department is required to develop a statewide quality assurance system. The system will be administered by a quality assurance office in the Department's central office. The unit will provide analysis of the current caseload to ensure compliance with best practice. The unit must provide a report on foster care outcome measures every six months.

Impact of the Settlement

Full implementation of the settlement agreement will significantly alter the way that children's services are administered, structured, financed, and measured in Michigan. The agreement reached between Children's Rights and the State of Michigan was finalized in early October and translation of the elements contained in the settlement to policy and practice will be an ongoing process. Because of the uncertainty over exactly how the agreement will be implemented, it is difficult to make confident statements about its impact on the State of Michigan. The focus of this section is to identify elements of the settlement that would represent the most drastic change from current policy and provide some basic discussion of the possible magnitude of the impact associated with these changes.

Central Office Changes

Establishment of the Children's Services Administration in the DHS will represent a fairly significant change from the current DHS administrative structure. Review of the current organizational chart suggests that many of the functions related to children's services that will be pulled into the new Children's Services Administration, such as policy development, child welfare improvement, and field operations, are scattered across several divisions within the DHS.

Additional central office changes in organizational structure that must be completed include creation and staffing of a new quality assurance unit, creation and use of a data management unit, creation and staffing of a new statewide abuse and neglect hotline, and creation of new offices to investigate allegations of abuse and neglect of foster children. Creation of these new units likely will lead to an increase in salary and wage costs for central office staff. The extent of this increase in cost will be largely driven by the ratio of current employees who can be used to meet these requirements to the need for additional staff required to comply with the settlement.



Local Office Changes

The agreement also requires changes in the administration of Children's Services at the county level. Currently, county offices are dually responsible for the provision of assistance services and children's services. Administrators at the local level are responsible for overseeing these two distinct program types. The agreement mandates separate local offices for children's services in the five most populous counties in the State (Wayne, Oakland, Macomb, Kent, and Genesee). This likely will result in an increase in administrative expenditure, but also lead to greater focus and expertise in the administration of children's services in these counties.

Local office changes include a drastic change in the number of FTEs allocated for children's services. As previously noted, caseload-to-worker ratios have been reported as high as 25:1 and 40:1. The agreement will put these caseloads for many workers as low as 15:1. This will drive additional salary and wage costs at local offices. At this time, there is not a firm estimate of how many additional employees will be necessary to reach the case-to-worker ratios mandated in the settlement. Each additional FTE for front line services increases expenditure by about \$75,000 Gross/\$45,000 General Fund/General Purpose.

Placement Changes

Additionally, the agreement requires that all children placed in foster care be placed in licensed facilities. Currently, the Department makes great use of relative placements for children in State care. In many instances relatives are unwilling or unable to achieve licensure. Requirements in the agreement largely limiting unlicensed placements mean the Department is going to have to become more aggressive in licensing relatives interested in taking in foster children and identifying more options for children without access to a licensed relative placement.

This requirement will have an impact on the financing of foster care services. One of the requirements for Federal Title IV-E funding is that the child is placed in a licensed home. Increasing the number of licensed placements and perhaps increased licensure of relative placements would increase cases eligible for Title IV-E reimbursement. This would lead to a positive fiscal impact on local government, which would no longer have responsibility for half of the cost of the placement, and State government, which would see a reduction in its share of the cost of a placement from 50% to about 38%.

Conclusion

It is likely that the settlement agreement between the Governor and Children's Rights will drive nearly all major policy decisions related to children's services in the near future. The mandated changes in Department organization and focus on children's services outlined above likely will increase State expenditures for children's services by tens of millions of dollars over the next three to four years. During a period of consistent revenue weakness, it is likely that the impact of the Children's Rights lawsuit will consume a great deal of legislative time and attention.

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Public Act 278 of 2008: State Building Authority Projects for Universities and Community Colleges

By Bill Bowerman, Chief Analyst

Introduction

This article provides an overview of the university and community college projects included in the fiscal year (FY) 2007-08 Capital Outlay appropriation bill. Fifteen universities and 26 community colleges requested State funding for capital outlay projects in FY 2007-08. The total estimated State share for all of the requested projects was \$699.2 million.¹ On September 29, 2008, the Governor signed Enrolled Senate Bill 511 (Public Act 278 of 2008), which includes authorization for six university projects and 12 community college projects with a total estimated State share of \$220.2 million. Public Act 278 also includes authorization for \$55.0 million in State agency projects, which are not discussed in this article.

Summary of Projects

Most of the projects, except where noted below, are planning authorizations that allow institutions to prepare program development and schematic planning documents, which subsequently must be approved for construction by the Joint Capital Outlay Subcommittee (JCOS) and the Legislature through the appropriation process. Pursuant to Section 242 of the Management and Budget Act, planning authorizations are not a commitment on the part of the Legislature to appropriate funds for the completion of plans or construction of any project. The State share of project costs for universities in recent years has been based on a 75/25 State/institution match. This match is limited in Public Act 278 by a maximum State share of \$40.0 million. Negotiations related to the selection of projects also resulted in adjustments to projects for two universities, which will result in revised project scopes or a higher institution match. Community college projects have been traditionally based on a 50/50 State/institution match.

Table 1 provides a summary of university and community college projects included in Public Act 278.

Table 1

FY 2007-08 State Building Authority Projects			
Project	Total Cost	State Share	Institution Share
Universities:			
Eastern Michigan University (EMU) – Pray-Harroid Addition and Modernization. This building is the largest classroom building on the EMU campus and daily serves an estimated 10,000 students. The building opened in 1969 and suffers from inadequate technology infrastructure, inadequate heating, ventilation and air conditioning systems (HVAC), inefficient energy systems, handicap accessibility issues, and	\$42,000,000	\$31,500,000	\$10,500,000

¹ This amount assumes the \$40.0 million cap on the State share of funding for any individual project.

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FY 2007-08 State Building Authority Projects			
Project	Total Cost	State Share	Institution Share
overcrowding. The project as originally proposed included renovation of 237,108 square feet and the addition of a net 45,000 square feet for classrooms, lecture halls, and student common areas. This request was based on a total project cost of \$57.0 million. Public Act 278 limited the State match to \$31.5 million. Therefore, EMU is revising the scope of its project to reflect a total cost of \$42.0 million and the State match accounting for 75% of the total project cost.			
Ferris State University (FSU) - Center for Collaborative Health Education. The Michigan College of Optometry at FSU is currently housed in a six-story building that was originally constructed as a residence hall in 1968. There are infrastructure and technology issues, and the design of the structure is not conducive to classrooms and labs. The proposed new 91,000-square-foot facility will include academic, laboratory, and clinical spaces for teaching, research, and patient care. The facility also will be available for use by the Colleges of Allied Health and Pharmacy. Construction is expected to begin by August 2009 with a tentative completion date of August 2010.	26,900,000	20,175,000	6,725,000
Michigan Technological University - Great Lakes Research Center. The new 22,000-square-foot facility will include aquatic research laboratories, a hydraulics laboratory, coastal research instrumentation, boathouse facilities, offices, and meeting rooms. The facility will be located on the waterfront adjacent to the campus. The university hopes to begin construction by summer 2009 with completion sometime in summer 2010.	25,000,000	18,750,000	6,250,000
Oakland University - Human Health Building. The new 157,300-square-foot building will house the School of Health Sciences and the School of Nursing. The university states that the new facility will enable the institution to double undergraduate and graduate enrollment to address shortages in nursing and health professionals. The tentative completion date for the project is fall 2011.	61,748,100	40,000,000	21,748,100
Saginaw Valley State University – Health Sciences Facility. The proposed 80,000 gross-square-foot facility will include laboratories for nursing, occupational therapy, kinesiology, and other allied health professions. The facility also will include general classrooms and faculty offices. Construction is planned to begin by March 2009 with a tentative completion date of August 2010.	28,000,000	21,000,000	7,000,000

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FY 2007-08 State Building Authority Projects			
Project	Total Cost	State Share	Institution Share
Western Michigan University (WMU) – Sangren Hall Building Renovation. The project involves renovating the three-story 190,000-square-foot building that is used for classrooms, teaching laboratories, two branch libraries, and offices for the College of Education and the Department of Sociology. Sangren Hall was built in 1964 and the project will provide for upgrading and replacing mechanical, electrical, and plumbing systems; upgrading infrastructure for state-of-the-art instructional technology; barrier-free requirements; energy improvements; and reconfiguration of the building for optimal use. The planning authorization contained in Public Act 278 would result in the institution's paying for approximately 80.0% of the project cost. Because adjusting the project scope would result in additional costs in future years, WMU is proposing to split the project into phases to obtain an increased State match for the project that is similar to the State percentage share of costs for other institutions.	56,000,000	11,700,000	44,300,000
Subtotal – Universities:	\$239,648,100	\$143,125,000	\$96,523,100
Community Colleges:			
Henry Ford Community College - Science Building Improvements. The college is still in the development stage for this project. The project tentatively would include renovation and an addition to the existing Science Building to accommodate all existing programs and the Health Career Middle College, the Bio-technician Program, and the second group in the Accelerated Nursing Program. The college will convert the proposal to a new building if the design phase determines that a new building would better meet the needs of science programs at Henry Ford Community College.	15,000,000	7,500,000	7,500,000
Jackson Community College - Whiting Hall Renovations. The 100,000-square-foot building was constructed in 1968. The renovation and 40,000-square-foot expansion will provide for advanced classroom technologies, state-of-the-art laboratories, and equipment. This will enable the college to expand nursing and allied health career programs. It also will allow for new programming that will include automotive body repair, alternative fuel, wind generation, and several computer areas. The expected completion date for the project is August 2010.	21,900,000	10,950,000	10,950,000

State Notes

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FY 2007-08 State Building Authority Projects			
Project	Total Cost	State Share	Institution Share
Kalamazoo Valley - Texas Twp Campus Expansion/ Student Success Center. The project includes additional faculty office space, laboratory and classroom expansion, an expansion of the central receiving and facility services area, and the addition of a new 20,000-square-foot Student Success Center. Commencement of construction is planned for May 2009 with a tentative completion date of December 2010.	12,000,000	6,000,000	6,000,000
Kirtland Community College - Campus Well Water System Upgrades. Kirtland's current well system consists of several wells that were installed in the early 1970s. The project will provide for a well system that will meet Kirtland's needs and comply with Type I water system standards. The project includes new wells, a well house, a back-up power source, and a distribution main. This project received construction authorization in Public Act 278. The estimated completion date is December 2009.	1,005,000	502,500	502,500
Monroe Community College - Classroom Technology Center Construction. The proposed new 60,000-square-foot facility would consist of modern classrooms and labs to teach technology- related courses. Existing facilities on the campus no longer meet the physical requirements necessary to provide instruction and training in current technology programs. The project is in the development stage and the college is looking toward a project completion date in 2011.	17,000,000	8,500,000	8,500,000
Montcalm Community College – Michigan Technical Education Center (MTEC) Expansion for Job Training. The expansion will allow for additional training required due to advanced technologies related to manufacturing jobs. Construction is planned for fall 2009 with an expected completion date of fall 2010.	6,000,000	3,000,000	3,000,000
Mott Community College - Mott Library Renovation. The project consists of renovating 28,500 square feet of the current 81,547 gross-square foot building to consolidate the Library, Distance Learning Center, and Viewing, Listening, and Testing Center programs in the Mott Library Building. The renovation will include needed repairs, upgrades, and replacements. The college intends to begin construction by spring 2009 with completion 12 to 18 months thereafter.	8,156,000	4,078,000	4,078,000
Muskegon Community College - Student Services One-Stop Center. This project involves renovation of existing space to consolidate all student services, including registration, records, counseling, testing, career services, student placement, recruitment, financial aid, and student life. These student services	5,000,000	2,500,000	2,500,000

State Notes

TOPICS OF LEGISLATIVE INTEREST

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FY 2007-08 State Building Authority Projects			
Project	Total Cost	State Share	Institution Share
functions will be on one level in a prominent location adjacent to the lobby of the main building. This One-Stop Center began as a college self-funded project and has been expanded to include nursing classrooms and other student support areas. The expected completion date is fall 2008.			
Southwestern Michigan College - Technology Building Renovation and Expansion. The project would renovate and expand the College's technology training facilities located in the A.C. Kairis Building on the Dowagiac campus. Improvements include technology enhancements, asbestos abatement, and parking lot resurfacing. The college plans to break ground in 2009 with completion sometime in 2010.	3,200,000	1,600,000	1,600,000
Washtenaw Community College - Skilled Trades Training Complex. The proposed project includes the renovation and upgrade of the 120,000-square-foot Occupational Education Building. The facility houses automotive body and servicing departments, welding, HVAC training center, and allied health programs. Renovations include a green roof, upgrades to mechanical systems, and renovation of interior spaces. The college also is proposing to renovate an 8,000-square-foot building to house advanced manufacturing technology. The college hopes to begin work as soon as State construction authorization is received.	16,000,000	8,000,000	8,000,000
Wayne County Community College - Northwest Campus Replacement Construction. The project will replace the current obsolete Northwest Campus facility (193,084 square feet) that dates back to the 1950s with 300,000 gross square feet of new space. The Northwest Campus serves 13 communities with a population of around 340,000. Public Act 278 includes construction authorization for this project. The college hopes to commence construction by July 2009 and complete the project by January 2013.	42,000,000	21,000,000	21,000,000
West Shore Community College - Arts and Sciences Center/Remodeling & Additions. The project involves remodeling and renovating 17,500 square feet of space in the Arts and Sciences Center; a 7,500-square-foot addition for classrooms, faculty offices, and student advising space; and a 6,500-square-foot addition for theater support space. The college plans to begin construction by July 2009 and complete the projected by March 2010.	6,900,000	3,450,000	3,450,000
Subtotal - Community Colleges:	\$154,161,000	\$77,080,500	\$77,080,500
Total University/Community College Projects:	\$393,809,100	\$220,205,500	\$173,603,600



Conclusion

Public Act 278 of 2008 contains the first new authorizations for State Building Authority-financed projects at universities and community colleges since the enactment of Public Act 10 of 2005. With the exception of construction authorizations for Kirtland Community College and Wayne County Community College, the planning authorizations for the institutions listed above are just the beginning of the process. Department of Management and Budget approval of plans, JCOS approval, and construction authorization from the Legislature will be required before actual construction begins.